OUR PRESENTERS

Sean Kidney
CEO of the Climate Bonds Initiative (CBI)
Presenter

Ms. Nomindari Enkhtur
Advisor to the Mongolian Sustainable Finance Initiative (MSFA)
Presenter

Ms. Bolu Wang
Sr. Researcher and Green Project Team Lead, Tsinghua University
Discussant

Ms. Louise Gardiner
Africa and Green Bonds Coordinator, Sustainable Banking Network (SBN), IFC
Moderator

Ms. Oyungerel Munkhbat
Project & Partnership Mgr. Mongolian Sustainable Finance Association (MSFA)
Presenter

Mr. Francisco Avendano
Global Focal Point of Green Finance, IFC
Discussant
Sustainable & Green Taxonomies

Sean Kidney, Climate Bonds Initiative
Background driver

Core principles of the EU taxonomy

- Science based
- Support transition from brown to green
- Dynamic flexible tool
- Make the process clear (now and after)
- Environmental system perspective
- Make it easy to use
- Leverage existing labelling
- Rapid change, not incremental
Who will use the Taxonomy?

The proposed regulation has three mandatory users:

1. Financial market participants
   - Investors with more than 500 staff
   - Corporations
   - Banks

2. EU Member States

The Taxonomy can be used on a voluntary basis by credit institutions and other issuers, such as local authorities.
EU Taxonomy Approach

A list of economic activities considered environmentally sustainable for investment purposes

- **Substantially contribute** to at least one of the six environmental objectives as defined in the proposed Regulation*
- **Do no significant harm** to any of the other five environmental objectives as defined in the proposed Regulation*
- Comply with **minimum safeguards**

*Climate Bonds Initiative*
EU Taxonomy = financial sector reporting on climate change

**Already low carbon**
Very low, zero or net negative emissions
Compatible with net zero CO2 economy by 2050

**Contributing to transition**
...to a net zero emissions economy in 2050

**Enabling emission reductions**
...in the first two types of activities

Compatible with those activities being enabled
Likely to be revised regularly and tightened over time

- Renewable energy
- Zero emissions transport
- Afforestation
- Building renovation
- Electricity generation up to 100g CO2/kWh
- Cars <50g CO2/km
- Manufacture of wind turbines
- Installing efficient boilers in buildings
EU taxonomy guidance

**Electricity:** 100gms Coe/KWh
Solar, wind, **geothermal**, hydro
Gas only if with CCS
Storage, transmission

**Transport** Zero tailpipe & very low emissions: electric, hydrogen

**Buildings**
Top 15%, or 30% improvements
Supply chain / SMEs

**ICT**

**Landuse**
Maintaining carbon
Improving carbon
Best practice farming

**Energy efficiency, adaptation**

**Manufacturing**
Transitions
Components
Aluminium, Steel, Concrete, Plastics

**Energy efficiency, adaptation**
Electricity: 100gms Coe/KWh
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Best practice farming

**Manufacturing**
Transitions
Components
Aluminium, Steel, Concrete, Plastics

**Energy efficiency, adaptation**
The Taxonomy in practice: Equities

How to apply the taxonomy to an equity portfolio

Company A
Description of activities company

Company B
Description of activities company

Company C
Description of activities company

Proportion of the company revenue or turnover

Company A: 40%
Company B: 80%
Company C: 10%

My green equity fund is 54% Taxonomy-eligible

Add each company’s weighting in the portfolio
Global taxonomies
Question
and
Answer
Green Taxonomy: Sharing Mongolia’s Experience
Sustainable Banking Network Webinar Series

Presented by:
Nomindari Enkhtur, Advisor
Oyungel Munkhbat, Project and Partnership Manager

February 2020
01 SUSTAINABLE FINANCE IN MONGOLIA
02 DRIVERS FOR A GREEN TAXONOMY
03 OVERVIEW OF PROCESS & STAKEHOLDERS
04 TAXONOMY OBJECTIVES & KEY SECTORS
05 MOVING TOWARDS IMPLEMENTATION
06 LESSONS LEARNED & RECOMMENDATIONS
ABOUT MSFA

Vision:
Mongolia to become the Regional Sustainable Finance Knowledge Center

IFC- SBN:
Implementation > Advancing Chair of Taxonomy working group Co-chair for the IDA working group
Green Taxonomy Development process and timeline

2018.12.11
Launch

• Coordination with Tsinghua team
• Meeting with key partners
• Desk review
• Drafting the Taxonomy
• Initial comments

2019.01 – 2019.10: Mail feedback from banks

2019.03 – 2019.10: Mail feedback from partners

2019.05 – 2019.06

• In-depth review of relevant documents
• Consultation #1

2019.03 – 2019.05

• One-on-one meetings with policymakers & partners
• Consultation #2

2019.05 – 2019.06

• Finalize draft
• Translate the Green Taxonomy
• Prepare for approval

2019.06 – 2019.10

• Central Bank of Mongolia directive for banks to send statistics

2019.10

2019.12.10
Approval
Drivers of the Green Taxonomy

**Environmental Issues**
- **Climate change**: 2.1°C
- **Air pollution**: miscarriage is 3.6 times more likely in the winter
- **Soil pollution**: 88% of Ulaanbaatar soil is contaminated by bacteria

**Industry Demand**
- Investment required to achieve NDC (22.7%): 11.7 billion USD
- Lack of definition limits access to green financing
- Banks: E&S Capacity
- Businesses: Potential green products

**Policy**
- National Green Development Policy
- NDC
- Monetary Policy of 2019
- National program to develop financial market until 2025
- National Sustainable Finance Roadmap
GREEN TAXONOMY: SHARING MONGOLIA’S EXPERIENCE

Partners

KEY PARTNERS:

1. Ministry of Construction and Urban Development
2. Ministry of Agriculture and Light Industry
3. Ministry of Energy
4. Ministry of Road and Infrastructure
5. Ministry of Finance
6. Energy Regulatory Commission
7. Financial Regulatory Commission
8. General Agency for Specialized Inspection
9. Mongolian Agency for Standardization and Metrology
10. Ulaanbaatar Municipality Office
11. National Development Agency
12. GCF Focal Point - NDA

TECHNICAL PARTNERS:

A. Regulators
1. Ministry of Construction and Urban Development
2. Ministry of Agriculture and Light Industry
3. Ministry of Energy
4. Ministry of Road and Infrastructure
5. Ministry of Finance
6. Energy Regulatory Commission
7. Financial Regulatory Commission
8. General Agency for Specialized Inspection
9. Mongolian Agency for Standardization and Metrology
10. Ulaanbaatar Municipality Office
11. National Development Agency
12. GCF Focal Point - NDA

B. Private Sector
1. Commercial banks (10)
2. Industry non-government organizations (18)
3. Businesses (12)
4. Universities (3)
5. International development organizations and project units (8)
6. IFIs (4)

APPROVED BY:

1. Minister of Finance
2. Governor of the Central Bank of Mongolia
3. Head of Financial Regulatory Commission
4. CEO of Deposit Income Corporation
Overview of the Mongolia Green Taxonomy

**Overall objective:** “To develop a nationally agreed classification framework of activities that contribute to climate change mitigation, adaptation, pollution prevention, resource conservation, and livelihood improvement in the context of green finance.”

**Specific objectives:**
1. Provide **common understanding and approach** to identify, develop, and finance green projects
2. **Enhance investors’ confidence and prevent “green washing”**
3. **Boost green financial flows** from various sources
4. **Track private sector investments** into green projects
5. **Inform national policies and strategies** on green finance

<table>
<thead>
<tr>
<th>Users</th>
<th>Examples of application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial institutions</td>
<td>Use as a <strong>guide</strong> to i) develop green finance strategies, ii) identify/compare green finance opportunities, iii) design green criteria, iv) measure and report green finance flows, v) educate clients.</td>
</tr>
<tr>
<td>Bond issuers (corporate, municipal, government)</td>
<td>Use as a <strong>reference</strong> to i) develop eligibility criteria of the projects, ii) assess and select green projects/activities, iv) tracking of the proceeds, v) reporting on the allocation of proceeds.</td>
</tr>
<tr>
<td>Industry (corporate, SMEs, start-ups etc.)</td>
<td>Use as a <strong>guide</strong> to identify opportunities to i) develop green strategies, ii) review/compare green technology options, iii) develop new green projects, iv) understand eligibility for green finance options.</td>
</tr>
<tr>
<td>Verification and standard-setting companies</td>
<td>Use as a <strong>reference</strong> to conduct pre- and post-issuance impact assessments, define baselines, certify and label green projects, and conduct verifications of the use of proceeds.</td>
</tr>
<tr>
<td>Policy makers</td>
<td>Use as a <strong>basis</strong> for further policy action in the area of green finance, including standards, labels, incentive mechanisms, and any potential changes to prudential rules.</td>
</tr>
</tbody>
</table>
Overview of the Mongolia Green Taxonomy

Principles

**PRINCIPLE 1:** Contribute to national policies and targets

- National Green Development Policy
- Sustainable Development Vision
- Nationally Determined Contributions

**PRINCIPLE 2:** Address key sustainability challenges

- Climate change mitigation & adaptation
- Pollution prevention
- Resource conservation
- Livelihood improvement

**PRINCIPLE 3:** Cover high-emitting, key economic sectors

- Energy
- Agriculture
- Waste
- Construction
- Manufacturing
- Services

**PRINCIPLE 4:** Align with international standards

- i) Broad conceptual definitions
- ii) Regulatory and legislative approaches
- iii) Market-led standards
- iv) Financial institutions’ definitions

**PRINCIPLE 5:** Comply with ESG standards

- Mongolian Sustainable Finance Principles and Sector Guidelines
- Banks’ own E&S policies

**PRINCIPLE 6:** Continuous review and development

- Review and update the taxonomy every 2 years in line with market, technology and policy developments
## Stock-taking of existing international practices

### 4 Types of General Approaches (examples)

<table>
<thead>
<tr>
<th>Broad conceptual definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Regulators, bankers associations</td>
</tr>
<tr>
<td>• DFIs, local financial institutions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regulatory and legislative approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td>• EU Taxonomy</td>
</tr>
<tr>
<td>• China Green Bond Endorsed Project Catalogue</td>
</tr>
<tr>
<td>• Bangladesh Bank Green Finance Taxonomy</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Market-led standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Green Bond Principles (GBP)</td>
</tr>
<tr>
<td>• Climate Bonds Initiative Taxonomy</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial institutions' definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• MDBs (IFC Climate Taxonomy, GCF, ADB)</td>
</tr>
<tr>
<td>• Local commercial banks, funds</td>
</tr>
</tbody>
</table>

### Commonalities & Inconsistencies

Clusters of categories

Source: UNEP Inquiry
Categories of the Mongolia Green Taxonomy

**Level 1:** the main taxonomy categories
**Level 2:** sector/sub-sector scope of green activities for investment purpose
**Level 3:** typical examples and technologies to demonstrate what is eligible under each category

<table>
<thead>
<tr>
<th>Level 1: Category</th>
<th>Level 2: Sub-category</th>
<th>Level 3: Technologies</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Clean energy</strong></td>
<td>1.1 Wind</td>
<td>1.1.1 Energy generation facilities</td>
<td>Onshore wind generation facilities for power</td>
</tr>
<tr>
<td></td>
<td>1.2 Solar</td>
<td>1.2.1 Electricity generation facilities</td>
<td>Centralised and distributed solar power facilities, including concentrated solar power, photovoltaic power</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.2.2 Small-scale distributed solar systems</td>
<td>Small-scale portable solar home systems, mini grid and other types of stand alone systems to power small communities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.2.3 Solar thermal application facilities</td>
<td>Facilities for application and generation of solar thermal energy, including solar water heating and other thermal applications of solar power in all sectors</td>
</tr>
<tr>
<td></td>
<td>1.3 Geothermal</td>
<td>1.3.1 Heat &amp; power generation facilities</td>
<td>Facilities for electricity generation and thermal applications of geothermal power in all sectors</td>
</tr>
</tbody>
</table>
### Categories of the Mongolia Green Taxonomy

**Examples of activities/eligible assets included in the taxonomy specific to Mongolia’s context:**

<table>
<thead>
<tr>
<th>Sub-categories</th>
<th>Sustainability issue addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clean heating appliances</td>
<td>air pollution, livelihood</td>
</tr>
<tr>
<td>Clean ger area fenced plot</td>
<td>air pollution, soil pollution, livelihood, waste</td>
</tr>
<tr>
<td>Eco-sanitation toilets</td>
<td>soil pollution, water pollution, waste</td>
</tr>
<tr>
<td>Sustainable pasture management</td>
<td>climate mitigation, climate adaptation, resource conservation</td>
</tr>
<tr>
<td>Sustainable cashmere production</td>
<td>climate mitigation, climate adaptation, resource conservation</td>
</tr>
<tr>
<td>Key Challenges in the Process</td>
<td></td>
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<tr>
<td>-------------------------------</td>
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<tr>
<td><strong>Technical</strong></td>
<td></td>
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<tr>
<td>1. Limited ESG data, no baseline</td>
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</tr>
<tr>
<td>2. Lack of industry standards</td>
<td></td>
</tr>
<tr>
<td>3. Limited availability of technologies and terminologies</td>
<td></td>
</tr>
<tr>
<td>4. Defining adaptation activities</td>
<td></td>
</tr>
<tr>
<td><strong>Strategic</strong></td>
<td></td>
</tr>
<tr>
<td>1. Setting priorities and boundaries (development vs. sustainability goals, social vs. environmental)</td>
<td></td>
</tr>
<tr>
<td>2. Keeping balance between international standards and Mongolia’s unique needs</td>
<td></td>
</tr>
<tr>
<td><strong>Stakeholder</strong></td>
<td></td>
</tr>
<tr>
<td>1. No super financial regulator (ownership issue)</td>
<td></td>
</tr>
<tr>
<td>2. Building consensus between various agencies and interest groups</td>
<td></td>
</tr>
<tr>
<td>3. Limited awareness and capacity</td>
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</tbody>
</table>
PILOT PHASE: Based on the feedback and results of the pilot phase, make necessary amendments to the taxonomy and develop implementation guidelines

INDUSTRY-GUIDELINES: Develop industry-specific guidelines in support of the taxonomy (e.g. energy efficient housing criteria)

TOOLS & TRAINING: Develop impact assessment (e.g. GHG quantification) tools for financial institutions and organize technical trainings for various stakeholders

VERIFICATION CAPACITY: Build local green project verification capacity

PILOT PROJECTS: Implement pilot projects with the application of the taxonomy (e.g. green affordable housing, sustainable cashmere production)

GREEN FINANCE POLICIES: Support the development of green finance policies in support of the implementation of the taxonomy
**GREEN TAXONOMY: SHARING MONGOLIA’S EXPERIENCE**

**Recommended step-by-step approach for SBN members**

<table>
<thead>
<tr>
<th>Phase 1: Preparation</th>
<th>Phase 2: Development</th>
<th>Phase 3: Launch &amp; Pilot</th>
<th>Phase 4: Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Map key <strong>stakeholders</strong> and partners</td>
<td>• Review and benchmark existing <strong>best practices</strong></td>
<td>• <strong>Approve and launch</strong> taxonomy</td>
<td>• Continuously <strong>update taxonomy</strong></td>
</tr>
<tr>
<td>• Identify most suitable <strong>leading/coordinating</strong> entity and <strong>approving body</strong></td>
<td>• Set sustainability <strong>objectives and principles</strong></td>
<td>• Support taxonomy with <strong>green finance policies</strong> (e.g. disclosure requirements)</td>
<td>• Develop implementation <strong>guidelines/tools</strong></td>
</tr>
<tr>
<td>• Set up <strong>committees/working groups</strong></td>
<td>• Develop <strong>initial framework</strong></td>
<td>• Set up <strong>reporting &amp; tracking systems</strong></td>
<td>• <strong>Develop green financial products &amp; pilot projects</strong></td>
</tr>
<tr>
<td>• Develop <strong>action plan, timeline, and budget</strong></td>
<td>• Refine framework through <strong>consultation and feedback</strong></td>
<td>• Collect <strong>feedback</strong> from stakeholders</td>
<td>• Analyze data, <strong>measure progress, set targets</strong></td>
</tr>
</tbody>
</table>

**Capacity building, awareness & stakeholder buy-in**
Question And Answer
Discussant

Ms. Bolu Wang

Sr. Researcher and Green Project Team Lead
Discussant

Mr. Francisco Avendano

Global Focal Point of Green Finance, IFC